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United States Senate

COMMITTEE ON THE JUDICIARY

WASHINGTON, DC 20510-6275

June 1, 2011

BRUCE A. COHEN, *Chief Counsel and Staff Director*
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Mr. Gordon Heddell
Inspector General
Department of Defense
400 Army Navy Drive
Arlington, VA 22202

Dear Inspector General Heddell:

I am writing to provide you with a **Report Card** that assesses improvements in the quality of audits issued by the Office of the Inspector General (OIG) in response to recommendations contained in my oversight review last year.

On September 7, 2010, I issued an oversight review of the 113 audit reports published by the OIG Audit Office in FY 2009. That report determined that OIG audit capabilities, which cost the taxpayers about \$100 million a year, were seriously degraded. As a watchdog, degraded audit capabilities cause me grave concern. That puts huge sums of tax money in harm's way. In speaking about my report on the floor of the Senate on September 15th, I urged you to "hit the audit re-set button" and get audits to re-focus on the core IG mission of detecting, reporting, and deterring fraud and waste. My report offered 12 specific recommendations for reaching that goal and bringing the audit process into alignment with the spirit and intent of the IG Act.

In a letter to me dated December 17, 2010, you made a firm commitment to "transform the Audit organization," consistent with many of the recommendations contained in my report. The new Deputy IG for Auditing, Mr. Dan Blair, produced a detailed roadmap for implementing the transformation plan. That report was dated December 15, 2010, and was attached to your letter. Mr. Blair's report lays out a plan for improving the "timeliness, focus, and relevance of audit reports." Most of Mr. Blair's reforms were supposed to be in place by June 2011, though some were expected to take longer.

As part of the internal review process, the OIG also tasked two independent consulting firms -- Qwest Government Services and Knowledge Consulting Group -- to conduct an organizational assessment of the Audit Office and its audit reports. These independent professionals seemed to reach the exact same conclusions I have. The Qwest Report put it this way: "We do not believe Audit is selecting the best audits to detect fraud, waste, and abuse ... The organization doesn't audit what truly needs to be audited ... And some audits hold little value in the end." The Qwest report suggests that the auditors have lost sight of their primary goal and need to "take a step back" and "refocus" on the core IG mission.

At this point, it is difficult to determine exactly when the promised reforms might begin to be reflected in published reports. The FY 2010 audits examined in the attached Report Card were “set in concrete” long before Mr. Blair’s transformation plan was approved. That is not to say, however, that some improvement is not possible now, since discussions regarding the need for audit reform actually began in June 2009. Four of the 5 top scoring audits evaluated in this report, for example, were issued late in the FY 2010 reporting cycle. They may offer a glimmer of hope as to what may be coming down the pike.

In order to establish a solid baseline for assessing the reform and transformation effort, my staff has taken another snapshot of recent audits. It can best be characterized as a Report Card. Each of the 113 unclassified audits issued in FY 2010 was reviewed, evaluated, and graded according to an evaluation system described in the attached report. After each report was graded individually, all the scores for each report in each rating category were added up and averaged to create a composite score for all 113 audit reports.

The composite score of 2.1 or D- awarded to the 113 reports is very low, indeed. Admittedly, the grading system used is subjective and imperfect. However, as inexact as it may be, my oversight staff has determined that it is a reasonable or rough measure of audit quality. The low mark is driven by pervasive deficiencies that surfaced in every report examined – with 15 notable exceptions. Those deficiencies are the same ones pinpointed in the Qwest Report. Instead of being hard-core, fraud-busting contract and financial audits, most reports were policy and compliance reviews with no fiscal impact whatsoever. Quite simply, the auditors were not on the “money trail” 24/7 rooting out fraud and waste as mandated by the IG Act.

There is one bright spot, however. The auditors got it mostly right in 5 reports and partially right in 10 other reports. These 15 reports prove that the Audit Office is capable of producing quality reports. Those 15 reports, which constituted just 13% of total output in FY 2010, earned grades of good to very good overall with excellent grades in several categories. They involved some very credible and commendable audit work. Each one deserves a gold star. While the top 5 reports earned overall scores of 3.7 or C+ to 4.0 or B-, those scores would have been much higher were it not for long completion times. The average time to complete the top five reports was 21 months. Had they been completed in 6 months, for example, they could have earned high B+ scores. At present, there are no specified goals for audit completion times. They are needed. Then audit teams can be organized with the right skill sets to meet those goals.

As you will note, the attached report contains 7 individual report cards. Each one of those report cards is followed by a brief evaluation of that report’s strengths and weakness plus some recommendations on the need for more aggressive follow-up work. The inclusion of these report cards is meant to be a constructive, educational exercise. It is hoped that the analyses accompanying these report cards will serve as a guide and learning tool for auditors and management alike and help them sharpen their skills and put them on the path to reform and transformation. If the auditors adopt and follow the simple guidelines used to gage the best and worst reports, they could begin producing top-quality audits that are fully aligned with the core IG mission prescribed in law.

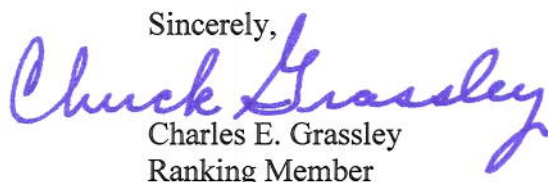
The rest of the audits examined in the attached report – 98 in all or 87% of total output in FY 2010 – earned grades of D or F. Some were mandated by Congress, including 27 memo-style audits of “Stimulus” projects that needed aggressive oversight but got none. These are prime examples of the kind of audits targeted in the Qwest Report. They were not designed to detect fraud and waste. They did not connect the dots in the cycle of transactions. They were not on the “money trail” where they need to be – and where their audit manuals tell them to go -- to detect fraud and waste. They did not audit what truly needs to be audited. And most had little or no redeeming value or impact. One audit is included in this section to showcase the ineffectiveness and wastefulness of these reports. Each one costs \$800,000.00 to publish.

I would also like to call your attention to Figures 6 and 7 in the section entitled “Comparative Performance with other OIG Audit Offices.” These two sets of graphs highlight striking contrast. They appear to show that DOD auditors are being significantly outperformed by their peers at other agencies -- HHS, HUD, and DHS -- and by very substantial margins, indeed. Their peers may be five times more productive than they are and may be able to produce audits at one quarter of their costs. Deputy IG for Auditing Blair needs to provide a satisfactory explanation for these apparent disparities. Otherwise, he may need to “hit the re-set button” on audit production and costs, as well.

While I am sure you will be disappointed by the overall audit grade of 2.1 or D- awarded to the 113 FY 2010 audits reviewed, your commitment to audit reform and Mr. Blair’s promise to create “a modern, world-class” audit oversight organization are music to my ears and bode well for the future. Although no sustained improvement is apparent yet, there is, indeed, a ray of hope on the distant horizon. However, as I am sure you know, major challenges lie ahead. The “Top Nine Audit Roadblocks” are identified at the end of my report. Those mighty barriers stand between all the promises and reality. You and Mr. Blair must find a way to tear down those walls. Otherwise, audit reform and transformation will not happen. These unresolved questions demand tenacious watch-dogging by my oversight team and other oversight bodies as well, including the Committees on Armed Services and Appropriations. My staff will keep reading and evaluating OIG audits until they see sustained improvement.

Your continued assistance and cooperation would be appreciated.

Sincerely,



Charles E. Grassley
Ranking Member

Attachment: Report Card on FY 2010 Audits
Copies to: Secretary of Defense Gates and
Committee on Armed Services